



EconoMag

The Show that demystifies Economics

Economic Indicators – part 1

GDP & GNP©

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We often hear that the GDP is growing, or that the PMI is rising, but we don't all necessarily know what these terms mean and it's quite easy to get mixed up and confused. This week's Economag will focus on trying to demystify these indicators and how they are grouped. Today, we'll take a look at production indicators!

Production indicators are by far the most common. The two main ones are the GDP and the GNP but there is also the PMI. Let's start with the GDP, which means Gross Domestic Product, known as PIB in French. This indicator is the value of a country's overall output of goods and services during one fiscal year at market prices, excluding net income from abroad.

This indicator is calculated every year by different institutions such as the World Bank, the IMF or the United Nations. GDP often changes from one ranking to another but there is usually not a big difference between them. The GDP is counted in US dollars, and obviously, the higher the country is ranked the wealthier it is.

At the present time the United States is maintaining its lead in the global rankings, having achieved this rank after overtaking the British Empire at the start of the twentieth century. But it is being caught up by China, even though the Asian giant has a much poorer population. And this brings us to the main criticism about GDP, in that it only takes production into consideration; so if a country is highly populated, as is China, there will inevitably be more services, goods and industrial material produced, but the population is not necessarily any richer. In about 100 years, hyper-populated countries like China and India, will overtake the United States simply because they are 2, 3 or 4 times more populated.

This now brings us to GNP, Gross National Product. Where the GDP is based on the production within a specific country's borders, GNP takes into account the production value of a country's citizens, whether they live at home or abroad. The rankings only differ a little, with countries such as India or Russia increasing their positions in comparison to France or the United Kingdom.

Finally, the last production indicator we'll discuss is the PMI. This stands for Purchasing Managers Index, and it is expressed in percentages, whereas if the value is below 50% this means that the activity is decreasing, and when it is above 50% this means the sector is expanding. To calculate this, production, employment, sales and stocks are taken into account, as the PMI is specially designed for the industrial sectors.

To sum it all up, these production indexes are helpful as they give us an idea of how a country's economy is doing. The definition of a recession for example, is based on the GDP,

so if growth is negative for more than 3 consecutive months, or if there is a substantial drop, the economy is considered to be in recession. But this does not actually indicate the wealth of the people, for which the best example of this is China, which ranks second in the global GDP rankings but lags far behind in per capita GDP. In this ranking smaller countries are obviously in the lead, with Luxembourg in front with \$115,500 per capita GDP, followed by Qatar and Norway, while the United States manages to come in 8th with \$54,600 per capita. France places 19th in the global GDP rankings with \$44,000 per capita, just behind Germany.